News Flash

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Highlights of the Income-tax Bill, 2025

The month of February 2025 will perhaps be one of those rare months where Indian taxpayers belonging to different strata have been waiting to hear from the Finance Minister ('FM') not once, but twice. The Income-tax Bill, 2025 ('the IT Bill') which seeks to replace the six-decade-old existing Income-tax Act, 1961 ('the Act') was introduced in Parliament today, on 13 February 2025. After the IT Bill is enacted into law, it will be called 'The Income-tax Act, 2025' and will be effective from 1 April 2026.

The team at JMP Advisors is pleased to summarise below the highlights of the IT Bill:

➢ Broad framework of the IT Bill

- The FM had highlighted in her Budget speech that the IT Bill will carry forward the spirit of 'Nyaya' i.e. justice and will focus on simplicity and ease of understanding for both taxpayers and the tax administration.

- True to the above announcement, the new IT Bill is more concise than the Act and comprises 23 Chapters, 536 Clauses and 16 Schedules. The number of words has been reduced from ~512,000 to ~260,000.

- The IT Bill has done away with the complex alphanumeric nomenclature of sections, some of which extended upto 5 or even 6 characters (e.g. section 80JJAA, section 115BAC, section 272BBB, etc.) and replaced these with simple numbering. Accordingly, the 536 clauses in the IT Bill are lesser in number than the sections in the Act.

- Further, most of the sections in the Act comprise of sub-sections, clauses, sub-clauses and hundreds provisos and explanations that clarify, limit or provide further details of specific sections. The IT Bill has eliminated provisos and explanations and all the details are provided in the main body of the clause and the sub-clause. Further, redundant provisions have been removed.

- Definitions of terms relevant to specific clauses have been provided under the head 'Interpretation' at the end of the clause or chapter.

- The concept of 'Assessment Year' and 'Previous Year' which exist in the Act have been replaced with 'Tax Year', which is defined as the period of 12 months of the financial year commencing on 1 April.

- The IT Bill contains provisions keeping in mind the current times and digital age. For instance, in the search procedure conducted by the Tax Authorities, references are made to books and documents stored on computer systems and in the virtual digital space, with a detailed definition of virtual digital space.

- The IT Bill includes the amendments proposed to the Act by the Finance Bill, 2025 earlier this month.

- The Act will be repealed on the enactment of the IT Bill. However, the provisions of the repealed Act will continue to apply in cases of scrutiny, rectification, penalty, appeals and any other proceedings in respect of any tax year commencing before 1 April 2026.

- The overall language of the IT Bill is simpler as compared to that of the Act. In certain cases, verbose text has been replaced with formulae or tabular presentations as appropriate, to elucidate the meaning clearly. For instance, agricultural land in the definition of capital asset, definition of demerger, cost of acquisition of capital assets in certain specified cases, etc. Further, the British era term 'Notwithstanding' which is used in serveral sections of the Act is proposed to be replaced by 'Irrespective of' in the IT Bill.

Tax Rates

- There are no changes proposed to the rates of income tax. The old income tax regime for personal tax has also been retained.

Business Income

- It is proposed to be clarified in the IT Bill that the new presumptive tax regime proposed by Finance Bill, 2025 for non-resident taxpayers engaged in the business of providing services or technology in India for the purpose of setting up an electronics manufacturing facility is not an optional regime.

Capital Gains

- The Finance Bill, 2025 proposed that the Long Term Capital Gains of a business trust arising from the transfer of an equity share or an equity-oriented fund or a unit of a business trust, which is subject to the levy of Securities Transaction Tax, shall be taxed at special rates and not at the maximum marginal rate. However, this proposal has not been captured in the IT Bill.

Income from Other Sources

- It is proposed to amend the definition of 'property' in the 'Gift tax' provisions to include virtual digital assets.

Other proposals

- Under the Act, the Tax Authorities can make additions to income which are reported in the Annual Tax Statements (Form 26AS) but not included in computing the total income. This provision does not find a place in the IT Bill.

- Information with the Tax officer which suggests that income chargeable to tax has escaped assessments explicitly includes
  i. any directions given by the Approving Panel for Impermissible Avoidance Arrangement under General Anti Avoidance Rule
  ii. any finding or direction contained in an order passed by any authority, Tribunal or court in any proceeding under the Act or by a Court in any proceeding under any other law.

- While the Finance Bill, 2025 eliminated the requirement for Tax Collection at Source ('TCS') on remittances under the Liberalised Remittance Scheme ('LRS') in cases where the amount being remitted is an educational loan obtained from a specified financial institution, this proposal is not reflected in the IT Bill.

The IT Bill does not contain any radical amendments to the existing law and merely seeks to clarify various provisions and lay down the law in a lucid manner, with a view to simplify the tax system and reduce litigation. As far as simplifying the provisions is concerned, the IT Bill has succeeded in achieving its purpose. However, as regards the goal of reducing tax disputes, the actual impact of the IT Bill will only become clear with the passage of time as the tax landscape evolves under the new law.

This News Flash is based on a high level review of the IT Bill. A thorough review and in-depth comparison of the provisions outlined in the IT Bill may possibly result in certain issues on interpretation of the tax law that may need to be analysed.

Should you wish to discuss any of the above issues in detail or understand the applicability to your specific situation, please feel free to reach out to us at coe@jmpadvisors.in

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